



# The Relationship between Entrepreneurial Orientation and Business Performance: A Review

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## ABSTRACT

*This paper examined the effect of entrepreneurial orientation on business performance. The study reviewed several pieces of literature on the relationship between the of entrepreneurial orientation dimensions (proactiveness, innovativeness, and, risk-taking) to business performance. A conceptual model designed to depict the relationship. From the extensive review of the scholarly pieces of literature on entrepreneurial orientation and business performance, the findings revealed a positive, negative, and contradictory outcome on the variables which made generalization of the results in all sectors and content invalid and unreliable. Therefore a study is recommended to establish an equilibrium in the inconsistencies in findings and to provide a logical conclusion to the inconsistencies of the previous studies. The study provides a basis for an acceptable model, a conceptual framework is established to guide the study to an empirical research effect of entrepreneurial orientation on business performance.*

**KEYWORDS:** *proactiveness, innovativeness, risk-taking, and performance*

## INTRODUCTION

In contemporary business activities, the rate of poor performance and subsequent failures of small and medium enterprises (SMEs) in Nigeria in recent times has been worrisome among businesses (Udum & Emmanuel, 2022). One essential approach to assess the achievement of a business is to measure its performance (Madi et al., 2021). Business performance is an extensively researched area, and performance has been considered an important construct (Egele et al., 2018). However, there is disagreement on measures of performance (Rumman et al., 2021). There has been no consensus among scholars on the appropriate performance measure predictors (Mahmood & Hanafi 2013).

There are two indicators clarifying business performance these are; financial performance (growth in sales, increase profitability, earning per share), and operational performance (market share, new product, product acceptance, marketing effectiveness, and value-added) (Venkatraman & Ramanujam, 1986). performance can be financial and/or non-financial performance where financial performance is economic efficiency and profit measures; financial performance and growth of a firm have been identified as a common determinant of performance, but financial records are often not adequately kept, and even if the accounts are maintained, they are usually not properly audited, the question of the reliability of accounts can never be resolved

(Rumman et al. 2021). Non-financial performance includes customer satisfaction, sales growth, employee growth, and market share, firms often examine their growth via turnover growth and employment growth (Barazandeh, et al, 2015). The performance of SMEs depends on numerous indicators including, entrepreneurial orientation, (Almomani et al., 2019; Rumman et al, 2021).

Many studies have used entrepreneurial orientation as an independent variable, while business performance as dependent variable to measure performance (Kiyabo & Isaga 2020). Entrepreneurial orientation can be described as the processes, practices, and decision-making that lead a firm to introduce new products, services, innovations, markets, or business models that were not already in existence (Covin et al., 2019; Abu-Rumman et al., 2021). Lumpkin & Dess (2001) and Olowofeso (2020), defined EO as the strategy-making process that provides an organization with a basis for entrepreneurial decisions and actions; EO, is a planned positioning business-level decision that brings out the firm's strategy-making practices, and behaviours that are entrepreneurial in nature (Ibrahim & Abu 2020).

## LITERATURE REVIEW

### Conceptualization of Entrepreneurial Orientation (EO)

Entrepreneurial orientation (EO) refers to the extent to which firms at individual level or companies demonstrate



high propensity of innovativeness by initiating new ideas and proactively mobilizing available resources and taking all risks there from to achieve success (Udum & Emmanuel, 2022). The five main entrepreneurial orientation dimensions, are proactiveness, innovativeness, risk-taking, autonomy and competitive aggressiveness which have been prominent dimensions that were considered and empirically studied in the literature of entrepreneurship. Entrepreneurial orientation has been described as consisting of three dimensions: innovativeness, risk-taking, and pro-activeness (Arief et al., 2013). In entrepreneurship and management literature, entrepreneurial orientation has become one of the most studied constructs (Covin et al., 2019 Kiyabo & Isaga, 2020). It continues to grow over time (Covin and Lumpkin, 2011; Abu-Rumman et al., 2021).

According to Dess et al., (2011), entrepreneurial orientation is a key factor that lead to higher performances and predictor of business performance (Wiklund & Shepherd, 2005; Rauch, Wiklund, Lumpkin, & Frese, 2009; Kharisma et al., 2020). Entrepreneurial strategic processes, well known as entrepreneurial orientation, are widely recognized as modes of strategy-making processes in the area of entrepreneurship. It is broadly believed that the three constructs that widely accepted and have been usually used in the literature of entrepreneurial orientation are innovativeness, risk-taking, and proactiveness. These three dimensions are believed to represent the form of entrepreneurial orientation that is recognized in a micro, small and medium enterprise (Kharisma et al., 2020).

The term “entrepreneurial orientation” has been utilized to suggest to the strategy-making processes or the technique influencing procedures and styles of firms that engage in entrepreneurial activities (Lumpkin and Dess, (2001); (Ahmed et al., 2019). Entrepreneurial orientation is a tendency of businesses to innovate, take risks and take proactive initiatives to potential market conditions (Arief et al., 2013). Entrepreneurial orientation is portrayed as the involvement of a firm to enter a new or another market (Lee and Peterson, 2000, Ahmed et al., 2019). Entrepreneurial orientation is a basis for achieving competitive advantage as it explains how business can renovate their operations for innovative growth pattern. (Abu-Rumman et al., 2021). There is a consensus among researchers that business performance is a dependent variable in entrepreneurial orientation literature, entrepreneurial orientation is one of the predictors of business performance in previous studies to measure performance (Kiyabo & Isaga 2020).

Entrepreneurial orientation is to direct firm’s behaviour, attitude, knowledge, and proficiency towards entrepreneurship. The entrepreneurial instinct motivates and raises the quest for the need for achievement. It includes traits, behaviours and attitude that is required in strategy-making processes in initiating, continuing, and bringing the business to a manifested position (Majumder & Mahapatra 2021). It is also argued that business that possess higher

levels of entrepreneurial orientation performance supersedes those with the lower level (Wiklund & Shepherd, 2005; Rauch, Wiklund, Lumpkin, & Frese, 2009). Entrepreneurs are innovative while involving innovation of products, services, and process; more proactive be risk-oriented, overcome a threat in a competitive environment and bring forth a business vision to reality (Olowofeso 2020). Proactiveness, innovativeness, and risk-taking are highlighted as the three basic dimensions of (Karimi et al., 2021).

### **Approaches to the Concept of Entrepreneurial Orientation**

There are two dominant perspectives on entrepreneurial orientation in the past research. (Covin & Lumpkin, 2011; Covin & Wales, 2012; DeepaBabu & Manalel, 2015). These are approaches universally associated with the works of Miller (1983) and Covin and Slevin (1989), in which EO is represented by firms that possess all three qualities of risk-taking, innovative and proactive behaviours to a similar extent or as a multi-dimensional approach associated with Lumpkin and Dess, (1996), work in which risk-taking, innovativeness, proactiveness, competitive aggressiveness and autonomy that define EO’s conceptual space (Covin & Miller, 2014).

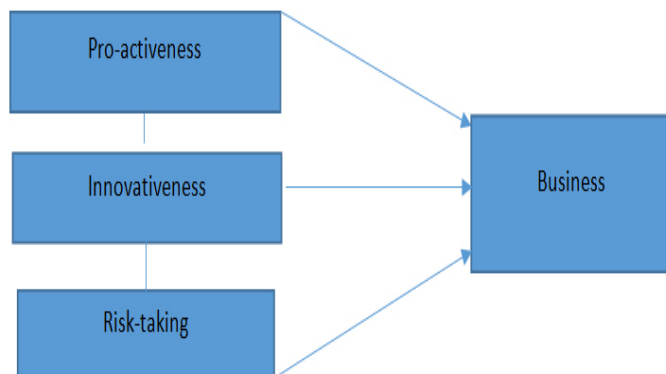
These conceptualizations differ from each other on whether the dimensions of entrepreneurial orientation vary independently or not (Covin, Green, & Slevin, 2006). Covin. et.al., (2006) asserted that one of the most critical decisions among researchers is about the extent to which dimensions of entrepreneurial orientation need to be present for a business to be considered entrepreneurial. The determination of the dimensions seems to be based mostly on the country and the situation of SMEs in the country (Abu-Rumman et al., 2021). Sari et al., (2022) the behaviors that describe entrepreneurial orientation are the key three dimensions to entrepreneurial orientation these are innovativeness, and proactiveness, risk-taking. SMEs need to develop entrepreneurial orientation in their business activities (Madi et al., 2021).

Therefore, according to the country analyzed (Kreiser et al., 2010; Lomberg et al., 2017), the entrepreneurial orientation must be regarded as a multidimensional construct (Covin et al., 2006) in which the effect of each dimension is related to the performance of the business and can be conditioned by contextual factors (Lumpkin & Dess, 1996). However, recognizing that each entrepreneurial orientation dimension will have a varying effect on performance (Diaz&Sensin 2020).

### **Conceptual Review/Framework**

The conceptual framework for the study was depicted to formulate the link between the independent variable entrepreneurial orientation (innovativeness, proactiveness, and risk-taking) and the dependent variable business performance is defined by the conceptual framework. The entrepreneurial orientation dimensions are the independent

variables, while performance is the dependent variable. Based on the conceptual model depicted below Figure 1.1, there is a link between constructs of Entrepreneurial Orientation dimensions (innovativeness, proactiveness, and risk-taking) and Business Performance.



Source: Author, 2023

### **Entrepreneurial Orientation and Performance**

Entrepreneurial orientation-business performance relationship has always been at the heart of entrepreneurial orientation research. According to Sari et al., (2022) entrepreneurial orientation has significant effect on business performance. Research into the nature, determinants, and effects of entrepreneurial orientation has snowballed ever since the 1980ies. (Cannavale & Nadali 2019). The link between EO and firms' performance has been the subject of focus and concern in prior research. According to Rauch et al. (2009), firms that have tendencies of exhibiting EO appears to perform better than those that are conservative-oriented (Ibrahim&Abu 2020). Nowadays dynamic business environment entails a business to innovate habitually, consider risks into cognisant, and be proactive, to sustain or discover a new market in the environment (Omisakin et al. 2016; Barazandeh et al., 2015). Wang (2008) advances that entrepreneurial orientation is essential for firm performance. This further suggests that companies are adopting more entrepreneurial orientation achieve better than those lacking orientation (Omisakin et al., 2016). In summary, the outcomes of many researchers reveal a positive relationship between entrepreneurial orientation and performance. (Barazandeh, et al., 2015). Previous empirical researchers have indicated a positive link between entrepreneurial orientation and firm performance (Radipere 2014); it has demonstrated that EO has significantly improved business performance (Covin and Slevin, 1991; Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005; Ibrahim&Abu 2020)

With today's rapidly changing business conditions, entrepreneurial orientation (EO) can be viewed as a critical issue to ensure the success of a business and has been recognized as potentially beneficial (Ahmed, 2019) Entrepreneurial orientation is anticipated to improve business performance because companies with higher EO behavior can identify evolving opportunities and achieve first-mover benefits (Yang, et al, 2018; Majumder

& Mahapatra 2021). In literature, the scholars suggested that organizational policy of EO, immensely contribute to the firms' performance in the emerging markets (Covin & Wales, 2012; Roxas et al., 2017). Hence, Zampetakis et al. (2011) scrutinized that highly entrepreneurial-oriented firms would demonstrate a significant contribution to their firm performance (Arzubiaga et al., 2018). Thereby, several researchers suggested is curvilinear overlapping between the EO and performance in developed economies (Jiang et al., 2018; Martinez-Conesa et al., 2017). While some literature findings suggest that EO has a significant positive correlation with firm financial performance in developed countries (Jiang et al., 2018) because developed economies' organizational policies and culture are different from the emerging economies (Rogo et al., 2017; Khan et al., (2020). Conversely, Soomro, (2020) view Entrepreneurial orientation has no significant effect on non-financial performance.

The importance of orientation can be seen due to the advantages that it offers to sustainable competitive advantage and business performance within various business settings (Wiklund and Shepherd, 2003; A. Khan et al., 2020). Contribution of proactiveness, innovativeness and risk taking to performance have received attention from scholars. Therefore, the relationship with of each dimension to performance is discussed below.

### **Proactiveness and Business Performance**

Studies on the connection between EO and business performance have found a positive relationship between proactiveness and performance (Lumpkin and Dess 2001; Hughes and Morgan 2007; Rauch et al. 2009; Kosa et al., 2018). The dimensions of business proactive behavior include creating the customers' loyalty, identifying and creating additional innovative activities, creating constant communication, and establishing supply chain to firm's product, marketing strategies when implemented will lead to high business performance (Wisner 2004). Business proactive orientation behavior depends on close relations with internal marketing and sales resources, processes, and skills. Supply management and customer relationship strategy, which are consistent with proactive orientation, have a positive effect on business performance (Mentzer et al. (2008; Chenuos & Maru 2015; Udum & Emmanuel, (2022). However, a study by George & Elrashid, (2020) revealed proactiveness has no significant association with the business performance. Therefore, the hypothesis proposes a there is no positive significant relationship between proactiveness and business performance.

### **Innovativeness and Business Performance**

According to Udum & Emmanuel, (2022) there exists a significant positive relationship between innovativeness and business performance. Covin and Miles (1999) suggest, that without innovativeness, entrepreneurship cannot exist and to the view of Kosa et al (2018); Omisakin et al. (2016). Innovativeness is a crucial part of business survival



strategies. Some research has found a positive link between innovation and business performance (Rauch et al. 2009). As such, the importance of innovation as a contributing variable to the measurement of entrepreneurial orientation and business performance is indisputable (Omisakin et al. 2016; Barazandehet al., 2015). Despite studies establishing significant positive relationship innovativeness and performance, a study by Ahmed, (2019), found negative impact on the success of business. Therefore, also reported innovativeness (INO) tends to reduce performance of business (Zulfiqar et al., 2019). The hypothesis is “there is no positive relationship between innovativeness and business performance.

### **Risk-taking and Business Performance**

Risk taking involves taking bold actions by venturing into the unknown, borrowing heavily and/or committing significant resources to ventures in uncertain environments with the prime objective of success (Udum & Emmanuel, 2022). The theory of risk-taking is associated with good business performance (Bearse, 1982), as cited by Chenuos & Maru (2015). According to Kosa et al. (2018), risk-taking will contribute to the performance of ventures. This study, thus hypothesized that risk-taking has no significant positive effect on the performance of business performance.

Discoveries from earlier studies revealed that entrepreneurial orientation has effect on business performance (Mahmood & Hanafi, 2013; Rauch, et al, 2009; Zehir et al., 2015). According to Arif et al. (2013), and Musthofa et al., (2017), reported that studies have suggested that a firm with entrepreneurial orientations will overcome the competition and lead to improved performance of the business. These outcomes are in consonance with the resource-based theory, which suggests that a company’s competitive advantage and higher performance stem from the firm-specific and unique resources and capabilities (Barney, 1991) as cited by Kiyabo & Isaga 2020. Contribution of entrepreneurial orientation to firms’ performance. Previous researchers found positive associations between EO and the performance of business in many contexts (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Wiklund and Shepherd, 2005; Krauss et al., 2005; Zahra & Covin, 1995).

From a theoretical angle, the positive contribution of EO was frequently explained through a resource-based view (RBV) of business proposed by Barney (1991). According to this theory, company’s valuable, rare, imperfectly imitable and non-substitutable resources can become strategic resources that help firms achieve higher productivity, thereby allowing them to increase sustainable competitive advantage and higher performance. Extant studies suggested that EO is considered a firm’s intangible asset developed by the firm’s internal resource base (Wiklund and Shepherd, 2003). EO requires specific entrepreneurial resources such as skills, knowledge and experience of the entrepreneurs (Tanchaitranon and Charoensukmongkol, 2016). Given

these contributions of entrepreneurial orientation that fit with the characteristics of critical resources, EO might be a characteristic of firms that allows them to gain a competitive advantage, and achieve high performance (Vaitoonkiat & Charoensukmongkol 2019).

However, there are also some studies that inferred that entrepreneurial orientation does not offer positive effects to business performance (Branch and McGivern, 2014; Naldi et al., 2007). Actually, these inferences form the foundation for the concern in discovering the effect that entrepreneurial orientation may have on business performance (Abdalla & Mohamed (2020).

### **BUSINESS PERFORMANCE**

According to Zehir (2013), performance can be measured with non-financial (operational) and financial indicators. Financial measures are related to economic factors such as profitability and sales growth (e.g. return on sales, and return on investment), and non-financial measures are related to operational success such as quality, market share, customer satisfaction, new product development, and market effectiveness. According to Chong (2008), financial performance indicators include profit per employee, profit before tax, increase in revenue, and expansion in the number of employees and non-financial performance measures are an increase in customer base, customers’ satisfaction, customers’ referral rate, and market share measures that are usually informal indicators based on the perception of the employees or entrepreneurs.

Other classification in the performance of measure includes subjective and objective measures. (Zehir 2015). Objective measures of business performance are more applicable than a subjective appraisal of performance. Conversely, collecting objective records are very difficult largely because owners/managers are mostly unwilling to release the firm’s financial data to outsiders, and they may offer a biased evaluation of their firm’s performance (Mahmood & Hanafi 2013). In addition, some scholars found it difficult to get objective measures and beliefs, objective measures as defective because the information can be limited in scope or not up to date (Barazandehet al., 2015). On the contrast, subjective measures are determined by respondents’ judgmental assessments, and the indicators include both financial and non-financial indicators (Zehir, 2015). Performance is measured in terms of the viewpoint of the owners regarding increases in assets, sales, profit margin, and expansion in customer base (Rumman et al., 2021) and subjective measure facilitates the measurement of complex dimensions of performance. Igwe et al. (2019) data have been verified to be reliable on a significant number of previous researches employed self-reported methods to measure business performance. The measurement of firms’ performance, both the subjective and self-reported measures through self-appraised are found to be consistent with the previous studies (Smart and Conant, 1994). A subjective approach was

adopted in studies where the performance of the business is measured by the perception. (Mahmood & Hanafi 2013; Barazandeh et al., 2015).

Performance is a multidimensional construct and the connection between EO and business performance may be conditioned on the indicators employed to assess performance (Lumpkin and Dess, 1996). Empirical evidence suggests that there is no consensus among scholars on the appropriate measures of performance indicators. Consequently, a wide range of performance measures, that is, objective and subjective measures; and financial and non-financial measures were operated across different studies (Chakravarthy, 1986; Venkatraman and Ramanujam, 1986). It has been widely accepted by researchers that objective measures of performance are more applicable than subjective measures of performance. Objective data, however, are not easy to be acquired as respondents are reluctant to disclose records that may be confidential to the public (Dess 1995). Furthermore, business are commonly persuaded to deliver subjective performance assessments of their business, which may lack robust consistency (Wiklund and Shepherd, 2005). Alternatively, performance can be considered to be a multidimensional construct and hence it is worthwhile to assimilate several subjective and objective measures of performance for precise assessment (Lumpkin and Dess, 1996; Wiklund and Shepherd, 2005). In this study, subjective and self-reported financial and non-financial measures are utilized to measure firms' performance, coherent with the earlier studies (Covin and Slevin, 1989).

According to Miller (1983), performance of business is the obvious result of implementation of the entrepreneurial approaches. In terms of business activities, it is generally considered operational performance to be influenced by venture decisions. Income earns through proceeds and sales growth (return on sales) is the central indices to measure business performance. But while, one must consider the non-financial aspect of becoming an entrepreneur such job satisfaction and effectiveness are variable that hold the perseverance and interest of entrepreneurs, despite encountering unanticipated risks (Majumder & Mahapatra 2021). (Rauch & Frese, 2009; Zampetakis et al., 2011) stated that EO is essentially associated with business performance as a key dependent variable. Other studies, such as Fatoki (2012), claimed that EO-firm performance link is more complicated than has a negative impact on firm performance (Zarrouk et al., 2020).

## CONCLUSION AND RECOMMENDATIONS

Based on the available literatures on entrepreneurial orientation and business performance further research has to be carried out to test other factors not found in the previous research models and most author confirmed that performance improvement and contribution of the constructs is industry specific and varies from one location to another, especially relating to things that might play a significant role

in determining the relationship between entrepreneurial orientation and business performance. Furthermore, the generalization of the results generated from these studies to other segments of market or sector remained gestalt. To avoid possible gestalt effects all the three constructs be examined separately, which could vary with its dimensions in their level of significance and influence on performance. It is equally recommended that similar studies should be conducted in other commercial cities Northeast in Nigeria.

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